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A BRIEF SUMMARY OF FARM DEBT ADJUSTMENT ACTIVITIES 1/

This is a brief summary of the farm debt adjustment activities in the FSA program. It is based on data available from a recent survey of one in every seven active standard RR borrowers, and from the regular county activity reports. The points which will be covered are:

1. Debt Reduction Among Standard RR Borrowers
2. Types of Cases Receiving Adjustment
3. Methods of Adjustment
4. The Trend in Farm Debt Adjustment, 1933-1942
5. Farm Debt Adjustment Related to Trend in Farm Prices

Debt Reduction Among Standard RR Borrowers. According to the 1941 RR Family Progress Report, 7 percent (or 1 in 14) of the standard RR borrowers in the FSA program in 1941 had received debt reduction since coming in the program. The amount of reduction averaged $433 for the 7 percent reporting and $31 for all borrowers.

The use of debt reduction as a rehabilitation technique varies widely among the different parts of the Nation, as may be seen in Table 1. The four southern regions, with 59 percent of the total standard RR case load, reported 34 percent of the debt reduction cases, while the Great Plains regions (VII and X), which include 10 percent of the total standard RR case load, reported 31 percent of the debt reduction cases. Debt reduction as a rehabilitation technique was most widely used in the Great Plains area, where 17 percent of the standard borrowers who were in the program in 1941 reported debt reduction. This contrasts with the 7 percent reported for the whole Nation and 4 percent in the South.

The amount of debt reduction varied widely from area to area and state to state. The average amount of reduction for all borrowers in the country was

1/ The farm debt adjustment program is an organized effort to provide facilities for adjusting, on a voluntary basis, farmers' excessive debts to conform with their capacity to pay. Any agreement, compromise, or settlement between a farm debtor and his creditors which gives the debtor a reasonable opportunity to meet his debts and continue farming is considered an adjustment. It is the policy of FSA to facilitate by impartial mediation the adjustment of excessive debts of farmers, both within and without the regular FSA rehabilitation program, and to assist voluntary state and county FDA committees in their efforts to make such adjustments and to render farm debt adjustment service without charge of any kind to the debtor or his creditors. Several methods of accomplishing this service are and have been in use: debt reduction, interest rate reduction, extension of time, and others. Source: FSA Instruction 733.1.

$31, but it varied from $8 in the South to $117 in the Great Plains. Borrowers in Regions IV, V, and VI averaged only $3, $8, and $3, respectively, as an average amount of debt reduction, while standard borrowers in Regions VII and X averaged $115 and $123, respectively. The state and regional figures may be seen in Table 2.

Table 1
Total Debt Reduction Among Active Standard RR Borrowers
Who Were in the Program in 1941
By Major Areas

Item	Northeast 1/	South 2/	Midwest 3/	Great Plains 4/	West 5/	U.S.
Proportion of the total cases adjusted, %	6	34	23	31	6	100
Percent of borrowers in each region reporting debt reduction	8	4	8	17	6	7
Average amount of reduction:						
All borrowers	59	8	33	117	29	31
Those reporting reduction	750	171	408	677	468	433

1/ Region I, 2/ Regions IV, V, VI, and VIII, 3/ Regions II and III,
4/ Regions VII and X, 5/ Regions IX, XI, and XII.
Source: 1941 RR Annual Family Progress Report of one in every seven active standard RR borrowers.

The amount of actual reduction for the borrowers reporting this service averaged $433 for the Nation as a whole. This is a substantial adjustment. This average reduction ranged from $750 in Regions I and VII to $100 in Region VI; the state range was from $1100 in North Dakota to $59 in Louisiana (Table 2). According to this survey only 7 percent of all active standard RR borrowers in the program in 1941 had had any debt reduction.

It must be remembered, however, that the farm debt adjustment activities of the FSA extend to thousands of other farm families. Of the 431,150 active standard RR borrowers in the program December 31, 1941, approximately 30,000 families had had some debt reduction. This is somewhat less than a third of the total number of different individual farm debt adjustment cases reported since 1935. The Monthly FSA Progress Report No. 150 (for March 1942) showed 101,690 different debt adjustment cases since September 1, 1935.

Types of Cases Receiving Adjustment. About half of the FDA cases are with old RR borrowers, one in ten are with non-FSA families, and two in five are with new RR borrowers. During the eight-month period from May 1 through December 31, 1941, there were approximately 13,000 FDA cases of all types adjusted in the country as a whole. Of these, 38 percent were new RR borrowers; 52 percent were FSA families already in the program, and the remaining 10 percent represent non-FSA families. The proportion of FDA cases which were old RR borrowers is about half in most of the regions.

Table 2

DEBT REDUCTION

Amount of Debt Reduction, if Any, Involved in Farm Debt Adjustment
Among Active Standard RR Borrowers
Who Were in the FSA Program in 1941 2/

Region and state	Average amount of debt reduction: All borrowers	Average amount of debt reduction: Borrowers with debt reduction	Borrowers Reporting Debt Reduction of: None	$1 to 49	$50 to 99	$100 to 299	$300 to 499	$500 to 999	$1000 to 1999	$2000 and over	Total
	$	$	%	%	%	%	%	%	%	%	%
U. S.	31	433	93	2	1	2	1	1	1/	1/	100
Reg. I	59	750	92	2	1	2	1	1	1	1/	100
Conn.	34	325	89	4	-	4	-	3	-	-	100
Del.	91	365	75	-	10	5	5	2	3	-	100
Me.	68	1001	93	1	1	1	1	2	1	1/	100
Md.	107	703	85	2	3	3	2	1	3	1/	100
Mass.	44	614	93	-	-	2	2	2	1	-	100
N.H.	12	377	96	1	1	1	-	-	1	-	100
N.J.	39	763	95	-	1	1	1/	1	1	1	100
N.Y.	44	611	93	2	1	2	1/	1	1	1/	100
Pa.	60	975	94	1/	1	2	1/	1	1	1/	100
R.I.	0	--	100	-	-	-	-	-	-	-	100
Vt.	107	707	85	2	1	5	1	2	2	2	100
Reg. II	38	558	93	1	1	2	1	1	1	1/	100
Mich.	12	316	96	1	1	1	1/	1	1/	-	100
Minn.	62	832	93	1	1	1	1	1	1	1	100
Wis.	36	382	90	2	2	3	1	1	1	1/	100
Reg. III	30	353	91	2	1	3	1	1	1	1/	100
Ill.	29	461	94	2	1/	2	1	1	1/	1/	100
Ind.	14	196	93	3	2	2	1/	1/	1/	-	100
Iowa	53	444	88	3	2	4	1	1	1	1/	100
Mo.	35	415	92	3	1	2	1	1	1/	1/	100
Ohio	16	146	91	4	2	1	1	1	1/	-	100
Reg. IV	3	144	98	1	1	1/	1/	1/	1/	1/	100
Ky.	1	111	99	1/	1	1/	1/	-	-	-	100
N.C.	5	104	96	3	1	1/	1/	1/	-	1/	100
Tenn.	1	75	99	1	1/	1/	-	-	-	-	100
Va.	4	285	99	1/	1/	1	1/	1/	1/	-	100
W.Va.	5	342	99	1	1/	1/	1/	-	1/	1/	100
Reg. V	8	140	94	2	2	2	1/	1/	1/	1/	100
Ala.	16	148	89	4	3	3	1/	1	1/	1/	100
Fla.	4	287	99	1/	1	1/	1/	-	-	1/	100
Ga.	4	117	96	2	1	1	1/	1/	1/	-	100
S.C.	3	77	97	2	1	1/	-	1/	-	-	100
Reg. VI	3	101	97	2	1	1/	1/	1/	1/	-	100
Ark.	3	137	98	1	1	1/	1/	1/	-	-	100
La.	3	59	96	3	1	1/	1/	1/	-	-	100
Miss.	3	122	98	2	1/	1/	1/	1/	1/	-	100

Table 2
(Cont.)

Region and state	Average amount of debt reduction: All borrowers	Average amount of debt reduction: Borrowers with debt reduction	None	$1 to 49	$50 to 99	$100 to 299	$300 to 499	$500 to 999	$1000 to 1999	$2000 and over	Total
Borrowers Reporting Debt Reduction of:											
	$	$	%	%	%	%	%	%	%	%	%
Reg. VII	115	748	85	2	2	5	2	2	1	1	100
Kan.	78	701	90	2	1	3	1	1	1	1	100
Nebr.	86	483	82	3	4	5	2	2	1	1	100
N.D.	223	1100	80	1	1	4	3	4	3	4	100
S.D.	124	858	85	2	2	4	2	2	1	2	100
Reg.VIII	23	267	92	2	2	3	1	1/	1/	1/	100
Okla.	15	206	93	2	2	2	1	1/	1/	1/	100
Texas	31	318	90	3	2	3	1	1	1/	1/	100
Reg. IX	15	528	97	1/	1	1	1/	1	-	1/	100
Ariz.	3	75	96	2	1	1	-	-	-	-	100
Calif.	13	426	98	1/	1/	2	1/	1/	-	1/	100
Nev.	-	-	100	-	-	-	-	-	-	-	100
Utah	21	722	97	1/	1/	1	1/	2	-	1/	100
Reg. X	123	555	78	4	4	6	2	3	2	1	100
Colo.	74	392	81	5	4	5	1	2	1	1	100
Mont.	177	588	70	6	4	10	3	3	2	2	100
Wyo.	147	710	79	3	3	6	2	3	3	1	100
Reg. XI	36	532	93	1	2	2	1	1/	1	1/	100
Idaho	38	669	94	2	2	1	1/	1/	1/	1	100
Oregon	36	471	92	2	2	1	1	1	1	1/	100
Wash.	35	436	92	1/	2	4	1	1/	1	1/	100
Reg.XII	34	381	91	2	2	3	1	1	1/	1/	100
N.Mex.	20	284	93	2	2	2	1	1/	-	1/	100
Okla.	103	917	89	2	3	4	-	-	1	1	100
Tex.	36	364	90	2	2	3	1	1	1	1/	100

1/ Less than .5 percent.
2/ Source: 1941 Annual Family Progress Report of Active Standard RR Borrowers - based on a sample of One in Seven Borrowers.

Although 9.4 percent of the total of cases adjusted were for non-FSA families, this proportion was only 4.7 percent in Region V, and averaged less than 6 percent in Regions III, VIII, and X. The proportion of non-FSA families who had farm debt adjustment was significantly higher than the national average in Regions XI and XII, where it was 29 percent and 27 percent respectively.

How do the regions differ with regard to the proportion of new RR borrowers receiving farm debt adjustment? It is seen in Table 3 below that the 5112 new RR borrowers who had the debt adjustment service comprised about 23 percent of all new RR borrowers who came in the program during the eight-month ~~period from~~ May 1 to December 31, 1941. This average is only 10 percent, however, in Region IV, and 17 percent in Regions I and XII. It reaches 37 percent in Region X and 33 percent in Region VII. These Regions comprise an area of the Nation where a considerable amount of adjustment in agricultural economy has been necessary.

Table 3

Farm Debt Adjustment with New RR Borrowers,
From May 1 to December 31, 1941, by Regions*

Regions	No. of New RR Borrowers	No. New RR Borrowers with Debt Adjustment	Percentage of new RR Borrowers with FDA
U. S.	22,411	5,112	22.8
I	886	155	17.5
II	1,740	407	23.4
III	2,171	483	22.2
IV	5,143	533	10.4
V	2,568	494	19.2
VI	2,279	579	25.4
VII	1,937	642	33.1
VIII	2,566	652	25.4
IX	608	153	25.2
X	1,180	435	36.9
XI	609	147	24.1
XII	724	125	17.3

*Source: FSA Report No. 33, issues of August 31, 1941 and of December 31, 1941.

Methods of Debt Adjustment. The several debt adjustment facilities for lowering or stabilizing the cost for the use of land have included, in addition to actual debt reduction, extension of time, interest rate reduction, sale of property or transfer of title, and a combination of one or more of these. During the deflationary period of agricultural land values (during and immediately following the depression) actual debt reduction was the most common method used, but the trend since 1937 has been sharply downward. Approximately two out of every three of the cases adjusted from 1937 to 1939 were by the debt reduction method, as compared to only one in two cases since 1940. This trend is shown in Table 4 on the following page.

Table 4

Trend in Percent of FDA Cases Adjusted
by Debt Reduction
1935 - 1942

Year	Percent cases with debt reduction
1935-36	60
1936-37	58
1937-38	67
1938-39	67
1939-40	57
1940-41	51
1941-42	50

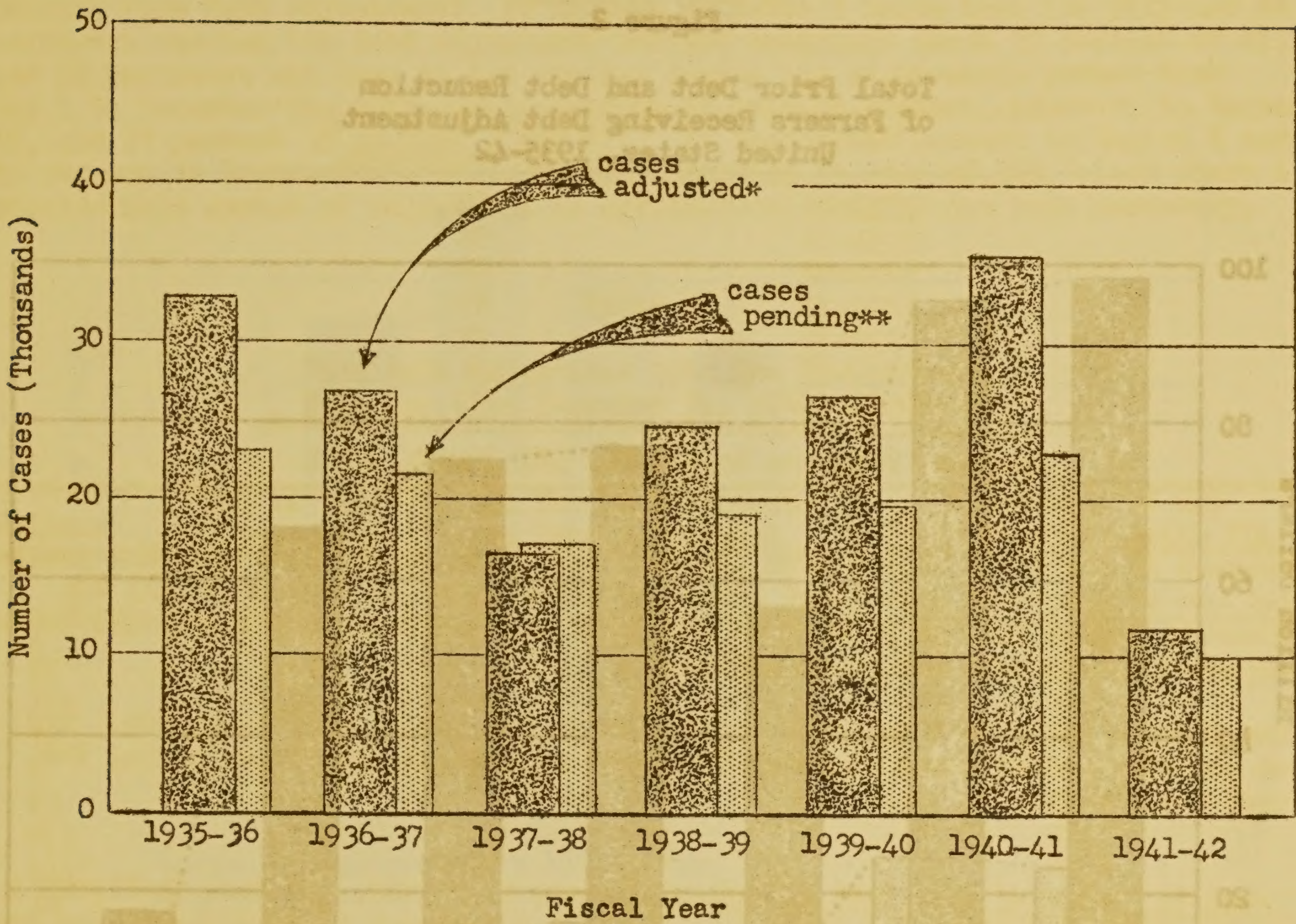
Source: Progress Report No. 150, March, 1942.

Farmers in the Great Plains Area (Regions VII, X, and XII) have made the greatest use of the "debt reduction" method of adjustment; 69 percent of all FDA cases in Region VII, 80 percent in Region X, and 74 percent in Region XII were adjusted by the debt reduction method.

The figures in Table 4 indicate a decrease in the use of debt reduction. Let us now examine the trend in total farm debt adjustment activities during the past seven years.

<u>Trend in Number of Farm Debt Adjustment Cases</u>, 1935-1942. As seen in Figure 1, on the following page, the trend in farm debt adjustment from 1935-1942 has been irregular. Falling off from 1937 to 1940, the number of FDA cases reached a peak again in 1940-41, but fell to the lowest level of the seven years during 1941-42. These figures include all FDA cases -- debt reduction, extension and interest adjustment. The trend in number of cases pending followed closely the number of cases adjusted. At the present time the number of FDA cases pending is the lowest of any period in the past seven years. This may reflect a decreasing need for this service during the War period of high farm prices. But before expanding this point, let us examine the trend in amount of debt adjustment.

Figure 1.
Farm Debt Adjustment Activities
Total Individual Cases Adjusted and Total Cases Pending
United States, 1935-42



* For fiscal year except 1941-42 which is July 1 to March 1.
Source: Progress Report No. 150. March, 1942.

** As of end of fiscal year, except 1941-42 which is March 1.
Source: Report No. 139. April, 1941.

<u>Trend in Amount of Debt Adjustment 1935-42.</u> As shown in Figure 2, the trends in amounts of both prior debts and debt reduction have been downward. The 32,000 farmers receiving farm debt adjustment in the 1935 fiscal year had a total prior debt of nearly $100,000,000. This debt was adjusted by one-fifth or approximately $22,000,000. During the current fiscal year (July-March) the 13,916 farm debt adjustment cases reported $18,824,299 prior debt of which 17.9 percent or $3,374,190 was reduced.

With regard to "group" cases adjusted, the high point for total prior debt and amount of debt adjustment was the fiscal year 1938-39, when 6 1/4 million dollars of reduction was obtained in a total prior debt of 8 1/4 million dollars - more than 75 percent reduction.

Figure 2

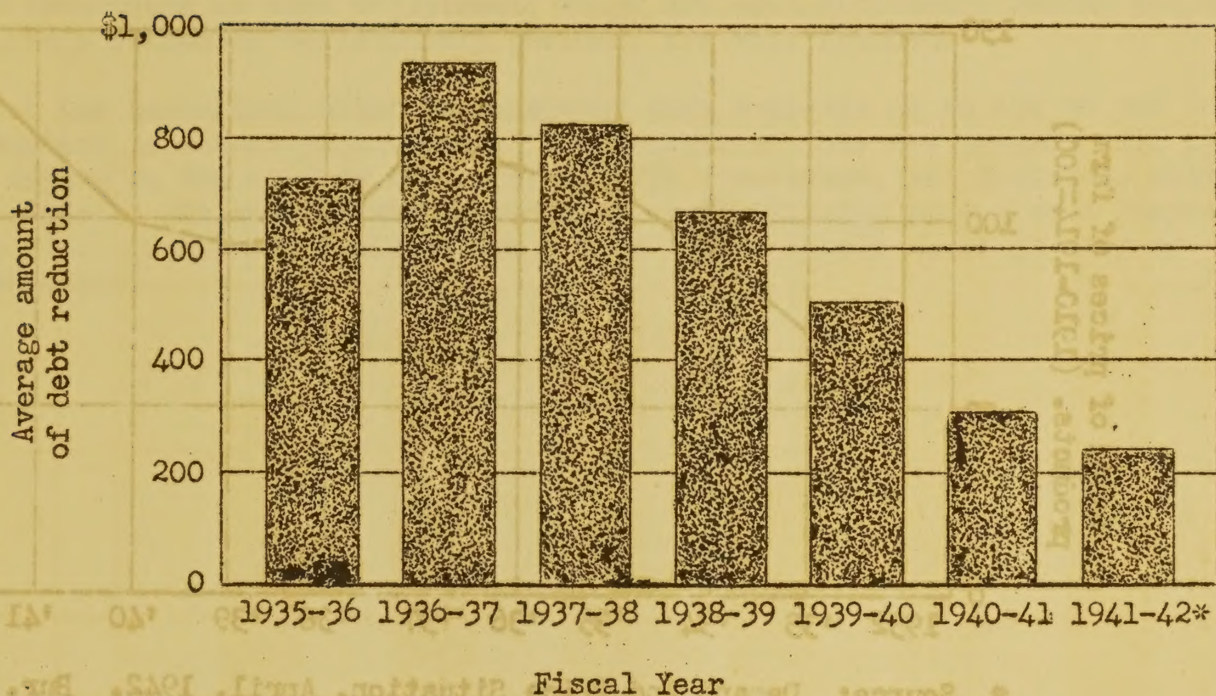
Total Prior Debt and Debt Reduction
of Farmers Receiving Debt Adjustment
United States, 1935-42

Source: Progress Report No. 150, March, 1942.
*July to February.

This downward trend in amount of debt reduction is better summarized in Figure 3, on the following page which shows average amount of debt reduction per case.

Figure 3

Trend in Average Amount of Debt Reduction
Among All FDA Cases
1935 to 1942



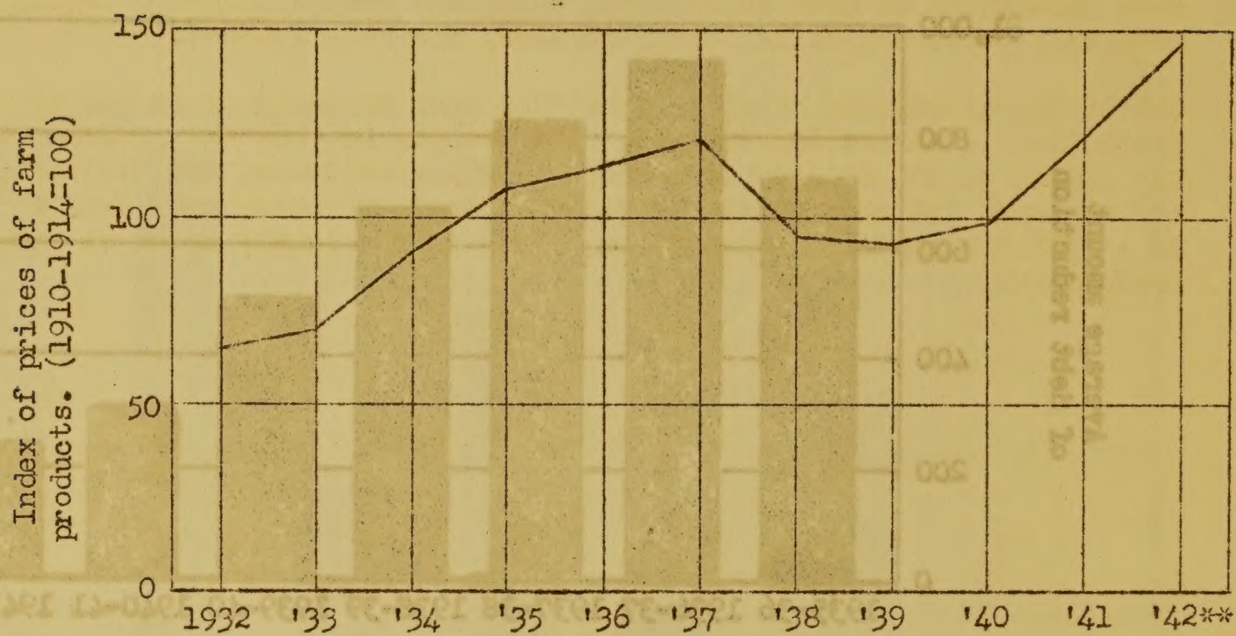
Source: ProgressReport 150, March, 1942.
* July 1 to March 31.

It is clear that there has been a decrease in FDA activity - in number of cases, and in amount of debt reduction. How is this explained? Certainly the effectiveness of the local FDA committees has been greater in the more recent years:- members have learned their business and supervisors have probably learned to work more efficiently with advisory committees. Is it not true that the farm debt adjustment technique is most useful during and following a deflationary period? During periods of rising or high prices, farmers will probably have less need for such assistance. Are we now in a period of high and rising farm prices?

<u>Trend in Farm Prices</u>. Since 1932, the trend in farm prices has been upward, but very sharply so in 1942. This may be seen in Figure 4 below. Right now farm prices are the highest of any period since World War I.

Figure 4

Trend in Farm Prices, 1932 to 1942*



* Source: Demand And Price Situation, April, 1942. Bur. Agri. Econ., U. S. D. A.
** January to April.

Surely it is no coincidence that the number of FDA cases pending is the lowest on record at a time that farm prices are 150 percent of the 1910-14 level. This upward trend in farm prices must explain part of the downward trend in farm debt adjustment activities in recent years. Farmers must feel less need for debt adjustment during this period of rising prices, and creditors are probably less inclined to make adjustments at such a time. Many, many farmers are now able to adjust their debts in the customary manner, namely by getting good prices for all the food and fiber they can produce.

Here is the difference between the 1932-1935 depression period and 1942. During the former period farmers were trying to pay back debts contracted in the late twenties when farm prices were very high. Such a debt relationship was fine for the creditor, but it drove debtors to the use of force to stop liquidations. Now, in 1942, the debtor is in the enviable position of being able to pay off debts contracted during a period of low or average prices (1932-38) during a time in which farm products are again bringing high prices, with a promise of higher prices yet to come. Of course, some debtors will fail to take

advantage of this opportunity to pay off old debts and will use their increased income for needless farm improvements, excessive living costs, or for bidding up land values. Many farmers, however, will doubtless keep in mind the economic consequences of such activities during and following the last War.

The foregoing review of the trends in farm debt adjustment activities, studied in the light of war-time changes in the general agricultural situation, has certain implications for FSA activity. It would seem that the present efforts of FSA personnel to place increased emphasis on techniques which will aid low-income farmers to produce a maximum of war goods, and correspondingly less on such techniques as debt adjustment, which are most applicable during and immediately following deflationary periods, are well founded.

One of the techniques which is receiving more emphasis as an aid to war food production is tenure improvement. The success of this new program will probably depend on the ability of members of FDA committees, and district, state and regional FDA specialists to redirect their thinking away from a "depression" to a "full-production" orientation. This is not likely to be an easy reorientation.